Fair and Reasonable Pricing

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Objectives

- Basis to determine fair and reasonable price to be paid for goods and services.
- Certified cost and pricing data verses other than cost and pricing data.

Introduction

- Due to time restraints of this session this training will be limited to the use of other cost and pricing data and price analysis techniques. It will not cover cost analysis or preparation of Independent Cost Estimates (IGE) which will be covered in future training.

Definitions

- Price – Cost plus any fee or profit applicable to the contract type. (15.401)
- Price Analysis – Analyze prices only.
- Cost Analysis – Analyze cost elements that make up price.
- Profit Analysis – Analyze proposed profit.
  - Weighted guidelines technique

FAR References

- Subpart 15.4 –
- Subpart 13.106-3

Pricing Requirement

- Contracting Officers must purchase supplies and services from responsible sources at fair and reasonable prices. (15.402)

Price Analysis Techniques

- FAR 15.404-1(b)(2)
  - Comparison of proposed pricing
  - Comparison of previously proposed pricing
  - Use of parametric estimating methods
  - Comparison with COMPETITIVE Published price lists
  - Comparison with IGE
  - Comparison with market research
  - Analysis of pricing information provided by the offerors

Use of Pricing techniques

- May use one or more methods to determine fair and reasonable price.
  - Example primary comparison with other offerors and secondary comparison with IGE.
- Be careful in using catalogs due to discounts. Must be competitive price lists, can not rely on single catalog. Discounts may be based on quantity, customer, or some market condition. This applies to use of GSA schedules for large procurements.

Comparison with proposals

- Preferred method.
- Anticipated Competition if only one offeror received if competition is expected.
- Look for dispersion of unit prices.
- Outliers may identify cost realism issues.

Comparison Example

- Example There were 8 offerors with the following pricing
  - Offeror 1 15,00/hour
  - Offeror 2 16,60
  - Offeror 3 14.75
  - Offeror 4 22.00
  - Offeror 5 12.00
  - Offeror 6 16.75
  - Offeror 7 15.50
  - Offeror 8 17.00

Comparison Example (cont.)

- The range is from $12/hr to $17/hr or $5.
- Looking for outliers Offeror 5 is at $12 which is $2.75 less than the second lowest offer. Based on a range of $5, further analysis of their proposal is necessary, as there may be cost realism issues in their price.

Comparison with Previous Price

- Be careful that the comparison is on the same basis. There are factors that may impact comparison.
- Factors that affect comparability
  - Market conditions
  - Quantity
  - Location
  - Inflation
  - Technology
  - Unique Government requirements

Parametric Estimating

- Parametric estimating is the use of statistical relationships between some characteristic of the item or service being procured and the associated cost
- Examples is relationship with cost and
  - Weight
  - Horsepower
  - Speed
  - Performance indicator

Parametric continued

- Not recommended unless analyst/KO has good understanding of statistics. Use is more common when the item or service being procured has no history or competition.
- Not recommended in commercial acquisitions.

Competitive Price Lists

- The key word is COMPETITIVE price lists.
- One cannot look at a single catalog and determine fair and reasonable pricing.
- There are many discounts that impact the final price such quantity, customer, and other terms and conditions.
- It is not uncommon to have discounts of up to 70 percent off catalog list price.
- Therefore this technique should be limited to situations where other techniques cannot be used.

Comparison with IGE

- IGEs submitted by the customers should be reviewed prior to closing to determine basis and support of cost elements
- Better suited as secondary technique behind comparison with other offerors and previous price.
- Significant differences between IGE and proposed pricing should be reconciled when cost elements of the proposed pricing is available.

Comparison with market research

- Also recommended as a secondary pricing technique, rather than primary.
- Market research should be documented.
- Be careful that market research reflects the requirement. For example a salary rate from Salary.com cannot be compared to a contractor’s unit price which is fully loaded.

Offeror's Other Pricing Information

- Very useful in direct health care providers.
- Examples may be unit pricing from other contracts, catalogs, or price lists.
- It is not cost elements such as direct labor rates, G&A and profit, which are cost elements use in cost analysis, not price analysis.

Information to support proposal analysis

- FAR 15.404-2
- The KO must tailor the type of information and level of detail requested IAW the magnitude and complexity of the required analysis.

Direct Health Care Providers

- Cost Realism
  - The primary element in success of recruiting and retaining health care providers is the compensation provided to the health care provider.
  - Comparison of price competition alone may not provide a reasonable basis to determine a fair and reasonable price, as follows:

Pricing Example

- The following pricing and other pricing data from a competitive procurement were submitted as follows
  - Offeror — Price — Compensation
  - TeeforD — $26.77 — $19.88
  - Chargealot — 29.00 — 15.00
    - Discuss the comparison

Another Example

- The following pricing and other pricing data from a competitive procurement were submitted as follows
  - Offeror — Price — Compensation
  - TeeforD — $26.77 — $16.20
  - Chargealot — 29.00 — 19.00
    - Discuss the comparison

Price verses Cost Analysis

- Price analysis is performed on prices, while cost analysis looks at the cost elements that make up the price.
- A KO may ask for cost data whenever the KO determines it necessary. However, certified cost and pricing data is restricted by the FAR. In most cases, our office requests other pricing data and not certified cost and pricing data.
- Certified cost and pricing data- sole source over $550 K. Sole source is not the same as a competitive solicitation in which only one offeror is received. In this case, where there were only one offer, anticipatory competition exists, and other pricing data can be obtained, when necessary, without certified cost and pricing data.

Conclusion

- When choosing price analysis techniques, more than one method may be chosen.
- Be careful that when performing comparisons that all the data is comparable.
  - Same or very similar PWS
  - Need to bring period of time the same prior to comparison
    - Escalation
  - Quantity differences need to be minimized

Conclusion

- Don’t be afraid to ask for other cost data when cost realism is important.
- Document, Document, Document

Questions